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SUBJECT: CROATIA KEEPS TOURISM INDUSTRY AT THE FOREFRONT

¶1. Summary. Croatian officials are proclaiming 2006 as another banner year for tourism while, at the same time, warning the industry not to rest on its laurels and encouraging improvements in existing facilities and infrastructure, green-field investments and creation of new products and services. While the success stories have been mainly in the coastal region and Istria, officials are looking to the interior for new attractions and to extend the season beyond July and August. The tourism industry accounts for 20 percent of Croatia's GDP and nearly 40 percent of total exports. End summary.

¶2. More than 10 million tourists visited Croatia in 2006, spending \$8.16 billion, a 3 percent increase over the previous year. Of those, 152,000 tourists hailed from the U.S., an increase of 134 percent over 2005, but still a small number in comparison to Europeans, who account for 64 percent of the total number of tourists. Countries sending the most tourists to Croatia are Germany, Slovenia, Italy, Czech Republic and Austria, according to the Croatian Chamber of Economy's tourism department. Tourism officials attribute the increase to better promotion targeting the U.S. and Europe and an active network of tourism councils helping to improve facilities and offerings. Last year some 120 articles and 60 TV programs on Croatia ran in the U.S. and Croatian tourism representatives promoted the country at tourism fairs throughout the world. Surveys show that the majority (78 percent of foreign tourists) come to Croatia's Adriatic coast. The board expects the number of tourists from the U.S. to increase further with a new Delta Airlines/Air France codeshare to Croatia. Their goals for development are to promote Croatia as the premier destination in the Mediterranean and Europe, increase earnings by increasing consumption and extending the season. However, as tourism reaches its capacity on the coast, developers are eyeing the interior of the country, traditionally agricultural areas to create new tourism destinations.

¶3. Amid the good numbers, hoteliers complain that a 10 percent Value Added Tax (VAT) on accommodations and agency fees, along with the discontinuation of subsidies for organized tours, has cut into their profits. Sanda Corak of the Institute for Tourism said Croatia's tourism VAT is higher than that of many other tourist destination countries such as Spain and Italy where the VAT is about 7 percent. The hotels and campgrounds may also have suffered from drastic price increases, reportedly as high as 57 percent over last year, without significant improvements in amenities. However, officials at the Ministry of Tourism said growth and profit will come by increasing the capacity of marinas and four and five-star hotels.

Who does what?

¶4. Several offices have a hand in Croatia's tourism industry from planning to promotion. The Croatian Chamber of Commerce oversees eight associations and affiliations covering travel agencies, hoteliers and caterers, and those involved in niche tourism such as nautical, adventure, health, rural and cultural tourism. The Ministry of the Sea, Tourism,

Traffic and Development oversees legal issues, including urban plans. The Tourism Institute, funded equally by the ministry and private industry, conducts research on tourism trends and makes recommendations. The Croatian National Tourist Board promotes the country's tourist destinations. The Board and the Croatian Chamber of Commerce are also linked to offices in 20 cities throughout Croatia, 10 of which are on the coast.

Making Zagreb more attractive to tourists

15. Amelia Tomasevic of the Zagreb Tourist Board said increasing bus tours brought more foreign visitors to Zagreb last summer. Klaric of the Croatian Chamber of Commerce said another factor is "City Breaks" weekend stops in Zagreb, which combines cheap flights with excellent hotels. Tour organizers book cultural events (play, opera, museum visit) in advance. Tomasevic said word of mouth, especially from celebrities, also helped promote Zagreb to tourists. For her part, Ms. Tomasevic grants interviews to every journalist who requests one and leads them to sources in other cities. Copying Helsinki's idea, Tomasevic hired young people as city guides during the summer months. Last year 20 multi-lingual students walked around the city, answered tourists' questions and provided printed information and maps. This year the guides will start in May, two months earlier than last year.

16. Tomasevic said Zagreb needs a 2,000 capacity convention hall in the center, development along the riverfront and a solution to the graffiti problem. The convention center has been discussed on and off for some 30 years. Tomasevic disagrees with the most recent proposal to build it on the Zagreb fair grounds, south of the Sava River, because it would not give conventioners easy access to city center attractions and shopping. Tomasevic and Davor Njiric, adviser to the Minister of Tourism, both mentioned the need for

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hydroelectric plants to regulate the water level of the Sava before any real development can take place. But they said that is years away from reality.

The coast

17. Tourism Institute surveys show travelers are no longer satisfied with an apartment on the beach, but also want activities and excursions. Corak called the isolated apartments and small houses dotting the coastline an eyesore, but said they would at least try to link them with nearby hotels for activities. She said not everyone on the coast wants to extend the season past September. Despite pleasant weather in October, hotel owners on the island of Brac refused to remain open, saying they had to tend to wineries and other winter activities, she said.

Creating new products

18. Tourism officials and USAID are promoting cultural, rural, nautical, wellness, and adventure tourism to extend the season and attract tourists away from the crowded coast. Projects include a winter resort in the Velebit mountains, boasting a view of the Adriatic coast. The project is being funded by a \$1.8 million grant from the European Commission's CARDS program. There are 53 golf course proposals being reviewed, according to Njiric of the Ministry of Tourism. Njiric said the GoC gives subsidies, small loans and grants to entrepreneurs, especially those renovating small, family-run hotels and historic sites. He said small hotel owners are also benefiting from a \$325,000 grant from Italy.

19. USAID projects include small and family hotels, gastronomy, regional tourism in Baranja, Virovitica, Vukovar, Varazdin, Cakovec, Koprivnica and Skradin; training destination management companies and tour operators; improving food services quality and event management. They said their projects are focusing on extending the

season and creating tourism opportunities from September to June and in areas away from the coast. Their goal is to create 1,500 new jobs in the next year. USAID contractors said the biggest gap in Croatia's tourism industry lies with tour operators and destination managers who are not trained or prepared to handle an influx of more demanding tourists. They added, however, that services in general need to be improved, especially in the interior of the country. About 80 restaurants are participating in a USAID-sponsored educational program conducted by Gastronomadi, a Croatian company started by former food critics.

Taking tourism to the interior

¶10. Through education and outreach, officials have convinced local communities in non-traditional tourist areas that tourism is a viable source of income, complementing small-scale agriculture. Recommendations include placing signs on the road to direct tourists to existing attractions, and adding information, interpretation and guides to the sites. Some of the targeted spots include Vukovar, Karlovacko and Vinkovci (archaeological site) and anywhere else there is a castle, historic site, artifact, ruins, annual festival, nature park or national park. While Vukovar already has become an important place to learn about the recent war, the city's active port on the Danube River and wineries are also a big draw. The Tourist Institute cautions that a lot of investment will be needed to turn these sites into overnight destinations, including building new hotels and restaurants.

Investors

¶11. The problems with investments often stem from unrealistic expectations on the investor's part. Now that the urban plans have been put into place, investors cannot expect to come to Croatia to build a golf course on agriculturally zoned land, according to Njiric. No matter how large the potential investment, the GoC says it will not rezone the land once the urban plans are adopted, he added. Croatia's planners have also become more concerned and protective of the environment and environmental impact studies are often required, especially for green-field projects.

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